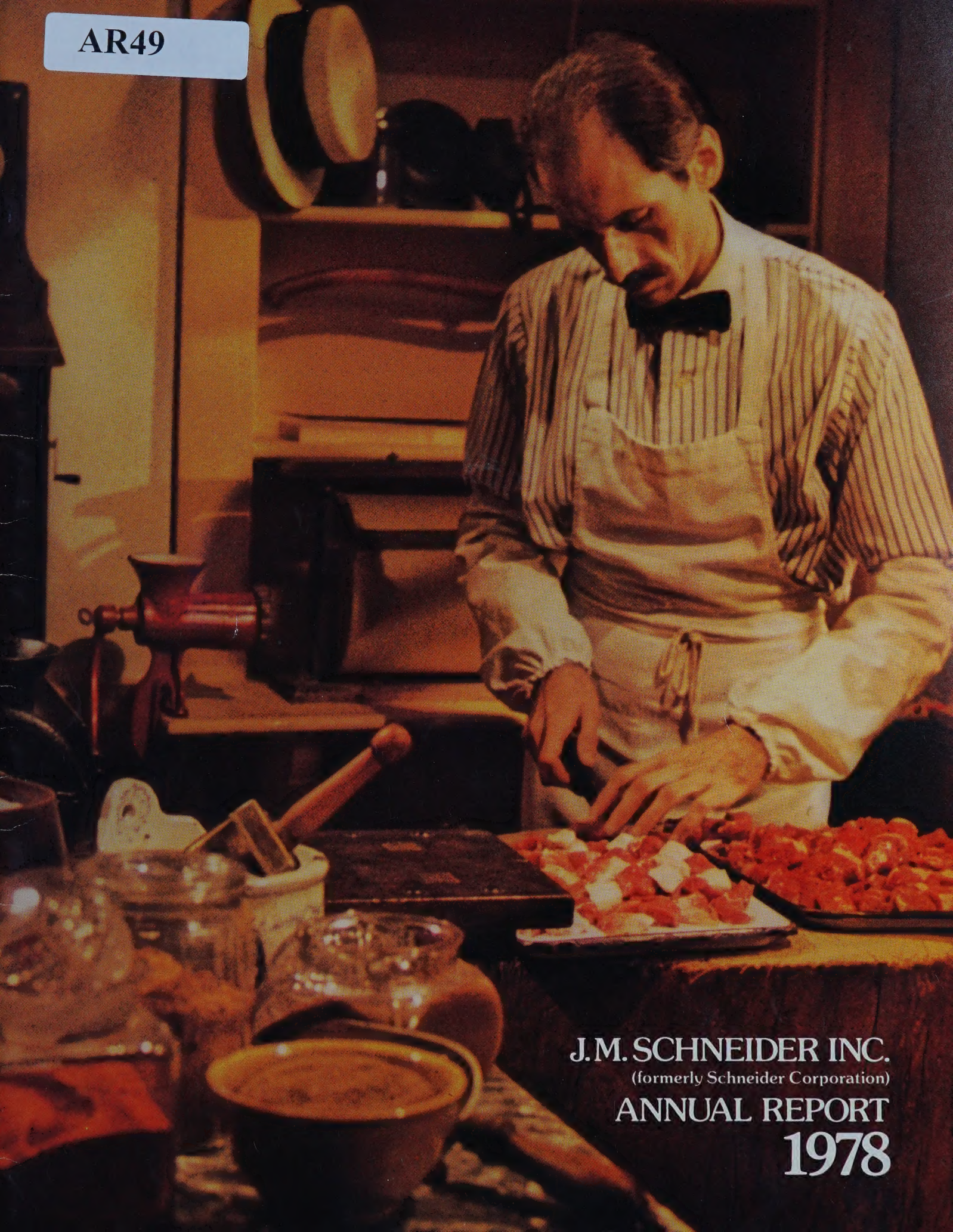


AR49



J.M. SCHNEIDER INC.
(formerly Schneider Corporation)
ANNUAL REPORT
1978

Corporate Profile

J.M. Schneider Inc. is an Ontario corporation engaged in slaughtering, processing and distributing various meat and food products across Canada as well as to some border cities in the U.S.A. and some off-shore markets including the Caribbean and Japan.

Our operations are largely centered at Kitchener, Ontario, where beef, pork and poultry are slaughtered and processed. Satellite plants in Ontario are at Wellesley, where cheese is processed and packaged, and at Ayr, where cooked chicken and various meat pattie items are produced. Pork and beef are also slaughtered at Winnipeg, where two other plants process meat and sausage products. Another sausage plant is located at Burnaby, B.C.

J.M. Schneider Inc. is now the fourth largest meat packer in Canada. Our product mix leans towards pork, particularly processed pork in the form of sausages, bacon, smoked meats, luncheon meats and hams. We also process beef, lamb and poultry in a variety of forms – fresh, fast-frozen, cured, smoked and cooked.

Refrigerated delivery is effected from distribution warehouses which receive products from the various production plants and then ship it regionally direct to customers, or nationally to other distribution warehouses, largely by our own truck fleet. These warehouses are located at Burnaby, B.C., Winnipeg and Kitchener. A fourth is scheduled for completion early in 1980 in Calgary.

In addition to the more than 400 fresh and processed meat and sausage items, we have successfully introduced other food products over the past year or so, also under the Schneider brand label. These include refrigerated-style dill pickles, frozen puff pastry sausage rolls, Oktoberfest mustard, frozen meat and pot pies.

By-products from both the slaughter and processing operation are sold and processed into ingredients used in animal feeds, soap and pharmaceuticals, and other products.

The Schneider company prides itself on being a “family-oriented” company. It began back in 1890 when John Metz Schneider, then earning a dollar a day in a Kitchener button factory, set up a sausage-making business in the basement of his home. For two years he kept his factory job while building up a thriving market for his sausage in his spare time.

Since those early beginnings, the enterprise grew until, in the early 1920s, a major new plant was built on its present site in Kitchener. Additions to the capacity of this plant were built in 1941, 1949, 1953, 1960, 1961, 1965, 1975-6 and 1977. With several acquisitions in Winnipeg and Vancouver in 1972 and 1973, the company rose rapidly from being a regional to a national supplier of fresh and processed meat.

Our policy has never changed: it is to offer the *consumer* a wide range of nutritious, carefully processed food products manufactured under the strictest hygienic conditions; to provide our *shareholders* with a sound long-term investment; and to furnish our *employees* with secure and rewarding careers.

Preserving the fine, high standards set by our founder J.M. Schneider himself is one of our primary objectives.

Our cover photo was taken while we were making one of our recent TV commercials created to emphasize the “tradition of quality” of our company.

Financial Highlights

J.M. Schneider Inc.

	1978	1977	% Change
Sales	\$324,675,000	\$262,834,000	+23.53
Net earnings	\$4,733,000	\$4,600,000	+2.89
Per share	\$1.74	\$1.70	+2.35
Percent of sales	1.46%	1.75%	
Percent of shareholders' opening equity	13.02%	14.25%	
Dividends paid (including tax paid on undistributed income in 1977)	\$1,011,000	\$824,000	+22.69
Rate per share	37¢	31¢	+19.35
Working capital	\$17,582,000	\$18,984,000	-7.39
Working capital ratio	1.95	2.44	
Shareholders' equity at end of year	\$40,228,000	\$36,361,000	+10.64
Per share	\$14.81	\$13.47	+ 9.95
Return on capital employed at beginning of year	16.75%	20.54%	

Important Dates for Shareholders

Company fiscal year 1979: October 29, 1978, to October 27, 1979 (52 weeks)

Dividend Dates

Payable: April 16, 1979—July 16, 1979—October 15, 1979—
January 15, 1980

Record: (4 weeks prior to date of dividend payable, closest Friday)
March 16, 1979—June 15, 1979—September 14, 1979—
December 14, 1979

Fiscal Quarter endings

1st Quarter: February 17, 1979, containing 16 weeks
2nd Quarter: May 12, 1979, containing 12 weeks
3rd Quarter: August 4, 1979, containing 12 weeks
4th Quarter: October 27, 1979, containing 12 weeks

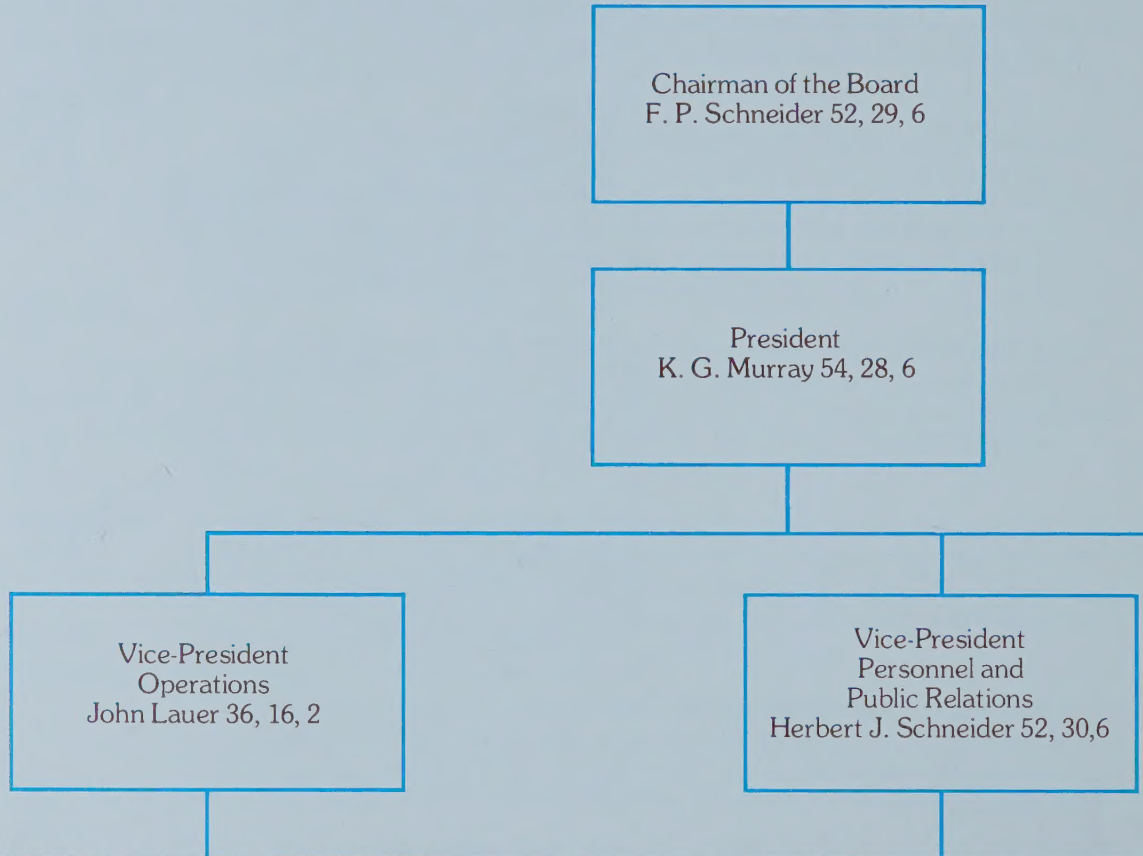
Quarterly Reports are usually ready six weeks from end of quarter. (4th Quarter Reports are delayed because of year-end figures)

Annual Meeting

The Annual Meeting of common shareholders will be held at the Valhalla Inn, Kitchener, Ontario, on Wednesday, March 14, 1979, at 7:30 p.m. All shareholders are cordially invited to attend.

Our Senior Management Team

J.M. Schneider Inc.



Production Group: Left to right: John Schneider, purchasing manager, 44, 23, 10; John MacVicar, traffic manager, 62, 6, 6; Jack Curran, Western operations manager, 55, 8, 2; Mr. Lauer; Bob Cassidy, general plant superintendent, 54, 38, 6-1/2; Roger Shoemaker, manager of control systems, 32, 7, 1-1/2; Frank Dingethal, director of meat processing technology, 32, 13, 6 months.



Personnel Group: Mr. (Herb) Schneider, left, and Ralph Misener, director of personnel, 47, 10, 6.

One of our greatest strengths is our management team. Without them we would not be the thrustful, pace-making company we are in the meat processing industry. Here we portray the people who report *directly* to one of our five vice-presidents. The first figure after each name gives age; the second the number of years of service with Schneiders; and the third figure the number of years each has occupied his present position.

The management people on these two pages have an average age of 47 and have a total of 510 years of service with the company, or an average of just over 20 years each.

Vice-President
and Director of
Research and Development
Howard G. Schneider 49, 29, 6

Vice-President
Sales & Marketing
Henry Beben 38, 9, 6

Vice-President
Finance and Administration
Dawson Jamieson 56, 37, 6



Product Development Group: Mr. (Howie) Schneider, right and Jim Gordon, product development manager, 33, 5, 5.



Marketing Group: Jim Gordon, left, product development manager, seen working with the Sales and Marketing group. Left to right: Harold Clements, general sales manager, 51, 26, 7; Mr. Beben (standing); Harry Brown, group commodity manager, 48, 16, 3; Lew Bradich, (standing) group product manager consumer goods, 48, 16, 5; Douglas Preston, sales and marketing administrative manager, 60, 31, 5; and Henry Bergen, manager of advertising and sales promotion, 59, 40, 8.



Finance Group: Left to right: Jack Houston, computer services manager, 53, 36, 3; Douglas Dodds, treasurer, 32, 9, 2-1/2; Mr. Jamieson; Roy Blake, administrative services manager, 42, 26, 12; Clint Acheson, national credit manager, 34, 3, 6-1/2 months.

To the Shareholders of J.M. Schneider Inc.

J.M. Schneider Inc.

Once again J.M. Schneider Inc. has had a banner year and fiscal 1978 saw your company end up with another record for sales and earnings.

Dollar sales were 23.5 percent greater than 1977. Despite higher costs for raw materials, for wages and salaries and other items, we sold 11 percent more pounds than our previous record last year. Our earnings at \$4,733,000 or \$1.74 per share, were 2.9 percent over last year. The bar charts shown elsewhere in this report visualize graphically your company's remarkable growth patterns over the past decade.

These record highs can be attributed to a number of factors. High on this list must come the efforts of our loyal and hard-working employees, who still regard Schneiders as a "family business" and the production of high-quality meats to be a number one priority. Another factor is our imaginative and enterprising marketing which is closely attuned to consumer needs. A third factor is our recent plant expansion which helped us to produce more and particularly to handle the large summer volume in 1978 induced by a six-week strike and lockout affecting major sections of the Canadian meat industry.

During the past two years we invested a total of over \$20,000,000 of additional money in the business – from earnings and from a long term debt issue. This large investment was required to cover the cost of additions to fixed assets during this two year period which amounted to \$20,419,000.

As a result of this large investment, we find ourselves in rather a paradoxical situation. Despite a record year of sales and earnings, we experienced a decline both in return on shareholders' equity, (capital stock and retained earnings left in the business) and in return on capital employed, (shareholders' equity and long term debt). In these years of high inflation, it is essential, we feel, to increase these

returns if the shareholder is to maintain or improve his position.

Return, after tax, on shareholders' equity, as at the beginning of the year, dropped from 14.25 percent in 1977 to 13.02 percent in 1978. Return on capital employed, as defined in the ten year statistical review at the end of this report, represents our ability to successfully use the money invested in the business from equity and debt. Return, before tax, on capital employed dropped from 20.54 percent for 1977 to 16.75 percent for 1978. The ten year average is 20.73 percent.

These falling levels of return question the wisdom of our high rate of additional investment during 1977 and 1978 and have caused the implementation of programs to arrest and reverse these adverse trends.

Much of this investment has gone into expansion of our Kitchener plant which has increased its productive capacity. However, in spite of this high investment in fixed assets and the re-arrangements within the Kitchener plant to streamline our product flow, we must report that there was an increase of only about one percent in labour productivity or in pounds produced per man-hour in 1978 over the previous year. Our expansion did, however, help us to handle the extra volume of orders created by the 1978 strike and lock-out in other sectors of the meat industry. This extra business, welcome as it was, caused us to over-utilize our capacity. Work had to be scheduled Saturdays and holidays for us to keep pace with sales orders.

While one cannot complain about these sudden, but mostly temporary, additional orders, we should not blind ourselves to the reality that they created a bulge in our third-quarter earnings – a bulge which masks a more serious drop in return on investment than is indicated by our financial statements. Our current projections for 1979 and 1980 indicate a continuation of

this declining trend in return on investment. Its reversal must be our prime objective for the future. Unless other better avenues of investment become apparent in which we feel capable, some program of reduced investment growth may be advisable involving increased dividends, the purchase by the company of its own shares, more rapid payback of long term debt than required, or some other plan.

Our long term debt to equity ratio improved during 1978 from 23:77 at the beginning of the year to 21:79 at its end. We do not anticipate more long-term debt at this time.

Immediately ahead of us are developments which will continue to improve customer service. We are now scheduling a distribution centre in Calgary for completion by February of 1980 to improve service and increase sales to customers in Western Canada. A similar centre for Vancouver for which we already hold the land, is being delayed to avoid the inherent problems of bringing two new distribution centres on stream at the same time. We remain committed to Western Canada and its future and this change represents only a rescheduling and not a new direction.

Other major capital expenditures in 1979 and 1980 will take place at our main Kitchener plant and will improve and increase our productive capacity in the large, new addition which we opened during fiscal 1978. This program will still leave some additional space in this building complex for future use. We expect additions to fixed assets to total about \$7,000,000 in 1979—all to be financed internally. These projects will help us to continue improving the already high quality of our products, increase our production capacity and efficiency and enhance the working conditions of our employees.

The four quarterly dividend payments ending with that of January 1979, total 40 cents including three

regular payments of eight cents each and a final of 16 cents which includes an 8 cent extra. This is in keeping with our policy of using the January payment as an extra to reflect results on a formula basis for the previous three fiscal years. This is about eighteen percent larger than the four quarterly dividends totalling 34 cents paid in the period ending with January 1978.

Raw Material Supplies

Meat supplies for the year have been adequate but at higher costs for both beef and pork. Hog slaughter in Canada has been 10.8 percent over 1977 for the calendar year up to the end of October, 1978, with our prime sources, Ontario and Quebec, being up 12.0 percent and 18.6 percent respectively. There continues to be a definite shift in hog numbers from west to east in Canada. In the four Western provinces, hog slaughter was only up two percent over 1977. Quebec is now sending more hogs to market than Ontario for the first time in recent history. This could have a significant long term effect on the industry and must be considered as we plan our strategy for the future.

Beef slaughtering, of much less significance than pork to our company, to the end of December 1978 was down 9.4 percent from last year. Of more import is an 80 percent increase in the cost of imported boneless beef from Australia and New Zealand during fiscal 1978. This has also directly affected the cost of our other source of boneless beef, used for further processing, from locally killed boning cattle.

There have been important developments in the activities of marketing boards during 1978. We believe that where the sale of a farm commodity such as hogs is controlled by a producer monopoly as is the case in most of Canada, including Ontario and Manitoba, the method of sale employed should be fair and equitable to all. This can only be accomplished by

allowing all interested buyers to bid competitively for all product with price alone determining the final buyer. The method of sale for hogs by the Ontario Hog Producers Marketing Board is a model of this type of plan.

In Manitoba, where an auction method has been employed for several years, a contract was given by the Manitoba Hog Marketing Board which seriously abrogated this principle. A major meat packer now has a substantial and assured portion of the Manitoba hogs at a formula price for a three-year period without the necessity of bidding for them. This effectively removes these hogs from the auction process and puts the remaining buyers at a distinct disadvantage. It reduces the effectiveness of the marketplace to determine a price at which the available supply can match the available demand. This Manitoba situation is currently frozen following a buyers' strike with a task force appointed by the provincial government to investigate and recommend a long term solution.

New Products

New products have always been an integral part of our marketing process and product development continues to be a high priority with the company. We have made several improvements and modifications to meet consumer needs in a number of lines. We have also introduced several new products including "Cartwright Ranch" rib eye steaks and sirloin patties. "Italiano" sausage, several "Mini-Deli" sliced cooked meats, "Ham Nuggets" etc. We are particularly pleased with the reception of our new sausage rolls, a product consisting of pork sausage meat encased in pastry dough which is found in freezer cases and ready for final oven baking by the consumer. Just being introduced is a new, high-quality frozen pot pie with meat and vegetables in a raw dough crust for home baking.

We have also extended our product line to two items not usually associated with the meat business. The first is the new "Pic-A-Dill" refrigerated fresh cucumber-style dill pickle now being sold through refrigerated counters across Canada. Our new "Oktoberfest" mustard, which has a distinctive flavour and is made from an old family recipe supplied by one of our own employees, is also finding favour in the eyes of consumers.

These new items are adapted to our refrigerated system of distribution and we believe will improve our profitability as they broaden our product range and appeal to consumers.

In addition to products sold directly to individual consumers, there has been, in the past year, a steady and considerable growth in our food services sales. The highest proportion of these sales is made to restaurants, but we are also developing sales to hospitals, industry cafeterias, schools, and other institutions.

We will be continuing to develop new products following the principle of distribution and marketing synergism with our existing sales system and product lines.

Employee Relations

The continued extension of sales and marketing activities and our corresponding increased productivity, meant an increase of 6.1 percent in the number of regular employees to a record total at fiscal year end of 3,031. Seventy-five percent of these jobs were added to production and distribution; the balance were in administrative, technical and sales positions.

We signed two-year collective agreements covering most of our production and distribution units and concluded agreements for our three Western plants subsequent to year-end. The signed agreements and anticipated settlements will increase the

J.M. Schneider Inc.

annual wage payroll by \$3,209,000. The full range of insurance and pension benefits for employees represents 27 percent of total wage and benefit compensation. Negotiated improvements this year mean an additional \$866,400 will be added to annual wage compensation costs in the supplementary benefit area.

All bargaining unit employees continue to be represented by accredited union organizations, the majority by the Schneider Employees Association with the balance of our plant employees represented by the Canadian Food and Allied Workers.

TWO BECOME ONE

During fiscal 1978, we were corporately organized as Schneider Corporation which operated through a wholly owned subsidiary J.M. Schneider Inc.

It was deemed advisable to amalgamate both these corporations into one continuing corporation to be known as J.M. Schneider Inc. for the purpose of simplifying total corporate organization and operations. This was accomplished at a special general meeting of shareholders held October 23, 1978 and became effective with the start of our new 1979 fiscal year on October 29, 1978. Any new share certificates will carry the new corporate name but it is not necessary to change those already in existence as your present documents continue to represent your interest in the newly merged corporation.

We continue to follow a policy of filling management and supervisory positions from our own trained personnel. Our training program is geared toward preparing persons who have a desire to assume a management position and to assist those who want to take on added responsibilities within management. During 1978, 16 persons became part of the management of the company, bringing the total number of management people to 160. Within this group, 13 of our management people were promoted.

In a growing organization such as

ours, the training of management is essential. We therefore emphasize on-the-job training and also give our people a chance to supervise training programs. Management and supervisory people are encouraged to take advantage of our educational assistance policy. We financially assist employees who wish to continue their education through correspondence, lectures and participative courses offered by accredited education institutions or organizations. During 1978, 88 employees took advantage of our educational policy.

For ten years a suggestion system has been promoted and has proven a fruitful source of ideas. The program was set up to encourage employees to "jog their genius" and to speak up when a better way is seen or thought of for the carrying out of one's job. The suggestion program, with its tangible rewards, gives opportunities for the expression of ideas and permits more active participation in the company's operations.

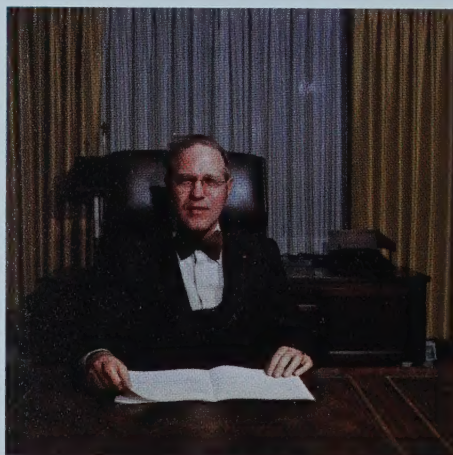
During 1978, 1,050 suggestions were received of which 209 were

implemented. Awards paid in 1978 were \$21,000. Net realization to the company for these suggestions after one year of implementation will be in the order of \$153,000.

Our Thanks

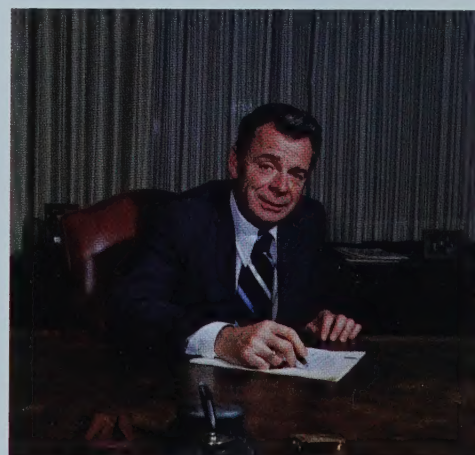
We are appreciative of the excellent effort of our management team and of our loyal employees who have contributed to the company's success. We would also like to express our appreciation to our hard-working and diligent Board of Directors for their continuing efforts and to you, our supportive shareholders, for your continued confidence.

We take this opportunity to pledge to you again our total commitment to the successful future of J.M. Schneider Inc.



F.P. Schneider

CHAIRMAN



Kenneth J. Manning

PRESIDENT

New Products in 1978

J.M. Schneider Inc.



These are the **NEW** products and some of the many "line extensions" introduced during fiscal 1978 in response to the needs of the marketplace.



Consolidated Statement of Earnings

J.M. Schneider Inc.

Year Ended October 28, 1978	1978	(IN THOUSANDS)	1977
Sales	\$324,675		\$262,834
Expenses			
Raw materials	212,013		168,064
Packaging materials	13,091		11,534
Manufacturing	55,491		45,700
Marketing and distribution	24,203		19,970
Administrative and general	8,216		7,313
Interest on long term debt	859		425
Depreciation	2,955		2,284
	316,828		255,290
Earnings before income taxes	7,847		7,544
Income taxes	3,114		2,944
NET EARNINGS	\$ 4,733		\$ 4,600
EARNINGS PER SHARE (note 7)			

Consolidated Statement of Retained Earnings

Year Ended October 28, 1978	1978	(IN THOUSANDS)	1977
BALANCE AT BEGINNING OF YEAR	\$28,014		\$23,969
Net earnings	4,733		4,600
	32,747		28,569
Dividends			
Paid on:			
Class B Preference shares	678		557
Class C Preference shares including tax paid on undistributed income in 1977	195		151
Common shares	138		116
	1,011		824
Declared in 1976, paid in 1977			(269)
	1,011		555
BALANCE AT END OF YEAR	\$31,736		\$28,014

Consolidated Statement of Changes in Financial Position

J.M. Schneider Inc.

Year ended October 28, 1978	1978	(IN THOUSANDS)	1977
WORKING CAPITAL DERIVED FROM			
Operations			
Net earnings	\$ 4,733		\$ 4,600
Items not involving working capital			
Depreciation and amortization	3,381		2,652
Deferred income taxes	813		1,431
	8,927		8,683
Issue of Class B Preference shares for cash	145		29
Sale of fixed assets	50		150
Proceeds of debenture issue			9,000
	9,122		17,862
WORKING CAPITAL APPLIED TO			
Additions to fixed assets	9,389		11,030
Dividends paid, including tax paid on undistributed income in 1977	1,011		824
Dividends declared in 1976, paid in 1977			(269)
Decrease in non-current portion of long term debt	124		122
	10,524		11,707
INCREASE (DECREASE) IN WORKING CAPITAL	(1,402)		6,155
WORKING CAPITAL AT BEGINNING OF YEAR	18,984		12,829
WORKING CAPITAL AT END OF YEAR	\$17,582		\$18,984

Consolidated Balance Sheet

J.M. Schneider Inc.

ASSETS—October 28, 1978	1978	(IN THOUSANDS) 1977
CURRENT ASSETS		
Term deposit		\$ 6,000
Accounts receivable	\$17,382	11,422
Inventories (note 2)	17,801	12,811
Income taxes recoverable		1,292
Other	895	679
TOTAL CURRENT ASSETS	36,078	32,204
FIXED ASSETS (note 3)		
Land, buildings, machinery and equipment	56,821	48,119
Less accumulated depreciation	19,998	17,312
TOTAL FIXED ASSETS	36,823	30,807
INTANGIBLE ASSETS	1,988	2,046
TOTAL ASSETS	\$74,889	\$65,057

Consolidated Balance Sheet

J.M. Schneider Inc.

LIABILITIES—October 28, 1978	1978	(IN THOUSANDS)	1977
CURRENT LIABILITIES			
Bank advances	\$ 2,703		\$ 1,410
Accounts payable and accrued liabilities	14,639		11,688
Income taxes payable	1,030		
Principal due within one year on long term debt	124		122
TOTAL CURRENT LIABILITIES	18,496		13,220
LONG TERM DEBT (note 4)	10,724		10,848
DEFERRED INCOME TAXES	5,441		4,628
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 5)	8,492		8,347
RETAINED EARNINGS	31,736		28,014
TOTAL SHAREHOLDERS' EQUITY	40,228		36,361
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$74,889		\$65,057
COMMITMENTS (notes 3 and 6)			

Approved by the Board F. P. Schneider, Director
D. C. Jamieson, Director

Auditors' Report

To the Shareholders of J.M. Schneider Inc.

We have examined the consolidated balance sheet of J.M. Schneider Inc. as at October 28, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 28, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Kitchener, Canada, December 15, 1978

J.M. Schneider Inc.

DIRECTORS

- †**Henry G. Beben**
Waterloo, Ontario
Vice-President, Sales & Marketing
J.M. Schneider Inc.
- †***Milton R. Good**
Breslau, Ontario
- J. Ruth Jackson**
Kitchener, Ontario
- †***Dawson C. Jamieson**
Waterloo, Ontario
Vice-President, Finance & Administration
J.M. Schneider Inc.
- †***Mervyn L. Lahn**
London, Ontario
President
The Canada Trust Company

Gordon A. Mackay, Q.C.
Kitchener, Ontario
Senior Partner—Mackay,
Kirvan, Guy

***Howard W. Main**
Kitchener, Ontario
Executive Vice-President
Electrohome Limited

†**Kenneth G. Murray**
Bright, Ontario
President
J.M. Schneider Inc.

†**Frederick P. Schneider**
Kitchener, Ontario
Chairman of the Board
J.M. Schneider Inc.

Herbert J. Schneider
Kitchener, Ontario
Vice-President, Personnel & Public Relations
J.M. Schneider Inc.

Howard G. Schneider
Kitchener, Ontario
Vice-President & Director of Research & Development
J.M. Schneider Inc.

OFFICERS

Frederick Paul Schneider
Chairman of the Board

Kenneth George Murray
President

Henry George Beben
Vice-President
Sales & Marketing

Dawson Charles Jamieson
Vice-President
Finance & Administration

John Edward Lauer
Vice-President, Operations

Herbert John Schneider
Vice-President, Personnel & Public Relations

Howard George Schneider
Vice-President & Director of Research & Development

Gordon Alexander Mackay
Corporate Secretary

Anna Grace Hartleib
Assistant Corporate Secretary

Douglas William Dodds
Treasurer

HONORARY DIRECTOR
Norman C. Schneider
Past Chairman

HEAD OFFICE

J. M. Schneider Inc.
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario N2G 3X8

REGISTRAR and
TRANSFER AGENT
The Canada Trust Company
Toronto, Montreal, Winnipeg
& Vancouver

AUDITORS
Thorne Riddell & Co.

SHARES LISTED
Toronto Stock Exchange
Montreal Stock Exchange

*Member of Audit Committee
†Member of Executive Committee

HEAD OFFICE AND PLANT

- 321 Courtland Avenue East
Kitchener, Ontario

PLANTS (Ontario)

- Northumberland Street
Ayr, Ontario
- R.R. #2
Wellesley, Ontario

OFFICE AND PLANT (British Columbia)

- 4305-6 Dawson Street
North Burnaby, B.C.

OFFICE AND PLANT (Manitoba)

- 140 Panet Road
Winnipeg, Manitoba

PLANTS (Manitoba)

- O.K. Packers
341 Dupuy Street
Winnipeg, Manitoba
- 358 Flora Avenue
Winnipeg, Manitoba

BRANCH OFFICES

- Valhalla Executive Centre
302 The East Mall, Suite 301
Islington, Ontario
- 1673 Carling Avenue, Suite 112
Ottawa, Ontario
- 795 Wonderland Road
Westmount Centre
London, Ontario
- 128 Larch Street
Suite 303
Sudbury, Ontario
- 7333 Boul Des Roseaies, Suite 305
Ville D'Anjou, Quebec
- The ABCO Centre
3767 Howe Avenue, Suite 206
Halifax, Nova Scotia
- Asta Industrial Park
301 Weston St., Suite 216
Winnipeg, Manitoba
- 6450 Roberts Street
Sperling Plaza
Burnaby, B.C.
- Centre 70
7015 MacLeod Trail
Calgary, Alberta

DELIVERY DEPOT

- 147 Hardisty St. N.
Thunder Bay, Ontario

Notes to Consolidated Financial Statements

J.M. Schneider Inc.

Year ended October 28, 1978

1. Summary of Accounting Policies

(a) CONSOLIDATION POLICY

Effective October 28, 1978, Schneider Corporation and its subsidiary company, J.M. Schneider Inc., were amalgamated and are continuing operations under the name of J.M. Schneider Inc. These financial statements include the accounts of these two companies.

(b) INVENTORIES

Products, which include raw materials, work in process and finished goods, are valued at lower of cost and net realizable value. Since most products can be sold at any stage in their production, it is not practical to segregate them into raw materials, work in process or finished goods. Cost includes laid down material cost, manufacturing labour and certain elements of overhead to the stage of production completion. Net realizable value is based on the adjusted wholesale trading price at the balance sheet date.

Supplies, which include packaging and manufacturing materials, are valued at the lower of cost and replacement cost.

(c) FIXED ASSETS

Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction. Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life with estimated useful lives not to exceed certain limits.

	Maximum useful lives	Approximate annual rates of depreciation
Buildings of solid construction	25 years	4%
Buildings of frame construction and improved areas	10 years	10%
Machinery and equipment	10 years	10% to 20%
Automotive equipment	5 years	20%

Depreciation is not provided on assets under construction.

Renovations of significant value but which do not warrant capitalization are deferred and written off over a period not to exceed three years commencing in the first month of usage.

(d) INTANGIBLE ASSETS

Goodwill and the excess of cost over book value at dates of acquiring shares of subsidiaries or businesses are being amortized on a straight line basis over forty years. The company recognizes permanent impairment in the value of intangible assets by additional charges against earnings.

(e) PENSION PLANS

The unfunded past service obligation under pension plans is charged against earnings in the year in which it is paid.

(f) EARNINGS PER SHARE

Earnings per share are calculated on the weighted average number of shares outstanding in the year.

2. Inventories

	1978	1977
Products	\$16,147,000	\$11,866,000
Supplies	1,654,000	945,000
	\$17,801,000	\$12,811,000

3. Fixed Assets

	1978		1977	
	Cost	Accumulated Depreciation	Net	Net
Land and improved areas	\$ 2,142,000	\$ 135,000	\$ 2,007,000	\$ 1,357,000
Buildings	26,086,000	6,895,000	19,191,000	11,994,000
Machinery and equipment	27,245,000	12,968,000	14,277,000	10,856,000
Assets under construction and deferred renovations	1,348,000		1,348,000	6,600,000
	\$56,821,000	\$19,998,000	\$36,823,000	\$30,807,000

The Board of Directors has approved future capital expenditures of \$7,530,000 of which approximately \$1,817,000 relates to projects now under construction.

4. Long Term Debt

	1978	1977
9½% Debenture, payable \$2,000 monthly including principal and interest and maturing September 1, 1980	\$ 48,000	\$ 70,000
8½% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of \$100,000 and maturing June 1, 1991	1,800,000	1,900,000
10¾% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of \$450,000 commencing in 1982 and maturing February 1, 1997	9,000,000	9,000,000
	10,848,000	10,970,000
Less principal included in current liabilities	124,000	122,000
	\$10,724,000	\$10,848,000

Principal due within each of the next five years is as follows:

1979	\$124,000
1980	124,000
1981	100,000
1982	550,000
1983	550,000

J.M Schneider Inc.

A fixed and specific charge on certain land, buildings, machinery and equipment and a floating charge on all assets of the company have been given as security for long term debt.

The trust indenture securing the 1991 and 1997 debentures includes particular covenants by the company, some of which limit the creation of additional debt, the entering into long term leases and the disposition of proceeds on the sale of a substantial part of the company's fixed assets. In addition, the company has undertaken not to declare or pay dividends or otherwise make changes in its capital which would have the effect of reducing the company's equity below \$26,000,000.

5. Capital Stock

Authorized

5,501,000 24¢ Cumulative, interconvertible
participating Class B and Class C
Preference shares without par value
373,627 Common shares

Issued	1978	1977
1,848,007 Class B Preference shares, (1977, 1,785,747 shares)	\$8,258,000	\$8,113,000
494,521 Class C Preference shares (1977, 539,181 shares)		
373,627 Common shares	234,000	234,000
	\$8,492,000	\$8,347,000

The cumulative participating Class B Preference and the cumulative participating Class C Preference shares are convertible one into the other at any time at the option of the holder. By virtue of The Business Corporations Act, upon any such conversion, the number of authorized and outstanding shares of each class affected by such conversion is changed accordingly. In view of the convertible nature of Class B and Class C shares, the value of these shares is not prorated between the classes.

The dividends paid on Class C Preference shares have been free of immediate income tax in the hands of the recipient, however, the shareholder's adjusted cost base of these shares is reduced by the amounts received.

From time to time the company reserves Class B shares under its Stock Option Plan for issuance upon the exercise of options which may be granted at the discretion of the Board of Directors to executives and key employees of the company. Such shares are to be issued at a price not less than the greater of (a) the average of the high and low sale price for such shares as reported by The Toronto Stock Exchange for the week previous to the time of the granting of the option or (b) 90% of the market price (as defined) of such shares at the time of granting the option. The option period may extend up to five years from date of grant and such option may be exercised in full at any time during such period.

Outstanding options at October 28, 1978 for the issue of Class B shares are as follows:

Year granted	Number of shares		Price per share	Date of expiry
Granted	Issued			
1974	14,000	10,000	\$7.25	November 18, 1979
1977	42,600	11,600	\$8.75	April 6, 1982

During the year, 6,000 shares were issued at \$7.25 per share and 11,600 shares were issued at \$8.75. At October 28, 1978, 36,050 Class B shares were reserved for issuance under the Stock Option Plan.

The company has also reserved 63,197 Class B shares which may be offered to employees under its Employees Payroll Deduction Capital Stock Purchase Plan. Such shares are to be issued at a price not less than 90% of the market price (as defined) on the day the employee entered the plan. No options to purchase Class B shares under this plan were granted during the year.

6. Commitments

It is estimated that the present value of the unfunded past service obligation under pension plans amounts to \$4,762,000 (\$2,842,000 in 1977). Annual payments of \$695,000 are required to liquidate this obligation by December 31, 1992. During the year, \$695,000 (\$1,000,000 in 1977) was paid against the past service obligation.

7. Earnings per Share

	1978	1977
Earnings per share	\$1.74	\$1.70
Fully diluted earnings per share	\$1.73	\$1.67

For purposes of calculating the fully diluted earnings per share, earnings were increased by the interest income on the funds that would have been received on the exercise of the share options outstanding calculated at an assumed rate of 9.20% (8.125% in 1977) less income taxes related thereto.

8. Anti-Inflation

The company is subject to the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation. In the opinion of management, the company is in compliance with the provisions of the Act.

9. Income Taxes

As a result of the amalgamation effective October 28, 1978, the company will be able to utilize an amount of \$464,000 of investment tax credit to reduce taxes on income for 1979 otherwise payable, which amount has not been reflected in these financial statements.

10. Other Statutory Information

	1978	1977
Remuneration of directors and senior officers (as defined by The Business Corporations Act)	\$516,000	\$494,000
Amortization of deferred renovations	368,000	309,000
Amortization of intangible assets	58,000	59,000

Ten Year Statistical Review

J.M. Schneider Inc.

(in thousands of dollars except per share statistics)	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Sales	\$324,675	\$262,834	\$254,970	\$217,018	\$202,270	\$177,191	\$116,465	\$84,163	\$79,289	\$70,181
Earnings										
Earnings before income taxes and extraordinary items	\$7,847	\$7,544	\$7,865	\$5,610	\$5,871	\$4,629	\$3,715	\$3,185	\$2,878	\$2,693
Income taxes	\$3,114	\$2,944	\$3,288	\$2,545	\$2,585	\$1,921	\$1,708	\$1,599	\$1,531	\$1,444
Earnings before extraordinary items	\$4,733	\$4,600	\$4,577	\$3,065	\$3,286	\$2,708	\$2,007	\$1,586	\$1,347	\$1,249
Earnings before extraordinary items as a percent of sales	1.46%	1.75%	1.80%	1.41%	1.62%	1.53%	1.72%	1.88%	1.70%	1.77%
Net earnings	\$4,733	\$4,600	\$3,579	\$3,065	\$3,286	\$2,708	\$2,007	\$1,586	\$1,347	\$1,249
Dividends paid (including tax paid on undistributed income)	\$1,011	\$824	\$756	\$702	\$810	\$727	\$601	\$494	\$456	\$299
Capital expenditures	\$9,389	\$11,030	\$5,377	\$4,425	\$2,945	\$3,733	\$2,950	\$3,509	\$1,944	\$2,413
Depreciation and amortization	\$3,381	\$2,652	\$2,567	\$1,955	\$1,671	\$1,602	\$1,382	\$1,175	\$998	\$888
Salaries, wages and employee benefits	\$56,501	\$47,747	\$42,084	\$34,048	\$30,226	\$24,718	\$21,537	\$18,767	\$15,701	\$13,953
Average number of employees	3,009	2,874	2,676	2,640	2,567	2,392	2,244	1,985	1,880	1,731
Working capital	\$17,582	\$18,984	\$12,774	\$12,000	\$11,276	\$9,713	\$8,504	\$5,618	\$4,832	\$4,348
Working capital ratio	1.95	2.44	1.95	1.91	1.82	1.68	2.04	2.31	2.43	2.23
Total assets	\$74,889	\$65,057	\$50,917	\$48,060	\$45,741	\$43,212	\$31,781	\$22,175	\$18,012	\$16,730
Shareholders' equity at end of year	\$40,228	\$36,361	\$32,287	\$29,810	\$27,447	\$24,970	\$20,032	\$14,452	\$13,360	\$12,219
Percent return on equity at beginning of year	13.02%	14.25%	12.01%	11.17%	13.16%	13.52%	13.89%	11.87%	11.02%	11.08%
Return on capital employed at beginning of year*	16.75%	20.54%	23.04%	18.03%	20.88%	20.36%	21.82%	21.87%	21.82%	22.19%
Number of shares outstanding (thousands)	2,716	2,699	2,695	2,701	2,701	2,701	2,395	1,899	1,899	1,899
Number of shareholders	1,977	2,115	2,203	2,385	2,379	2,560	2,217	1,955	2,002	1,995
Per share statistics, in dollars										
Net earnings	\$1.74	\$1.70	\$1.33	\$1.13	\$1.21	\$1.04	\$.93	\$.84	\$.71	\$.66
Dividends paid	\$.37	\$.31	\$.28	\$.26	\$.30	\$.28	\$.28	\$.26	\$.24	\$.16
Equity at end of year	\$14.81	\$13.47	\$11.98	\$11.04	\$10.16	\$9.25	\$8.36	\$7.61	\$7.04	\$6.43

*Return on Capital employed at beginning of year

Return is:

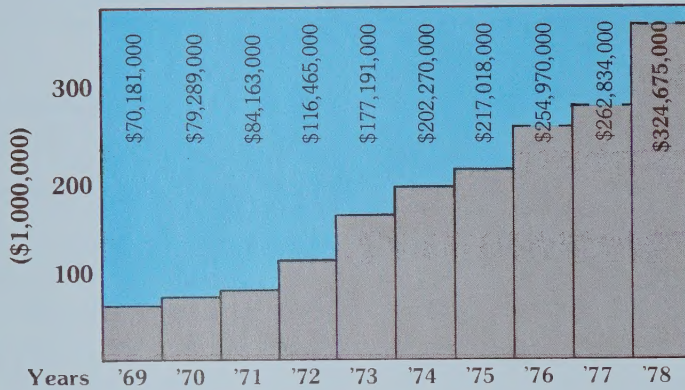
Earnings before income taxes and extraordinary items plus interest on long term debt at the beginning of the year less interest earned on temporary investments of proceeds of long term debt.

Capital employed is:

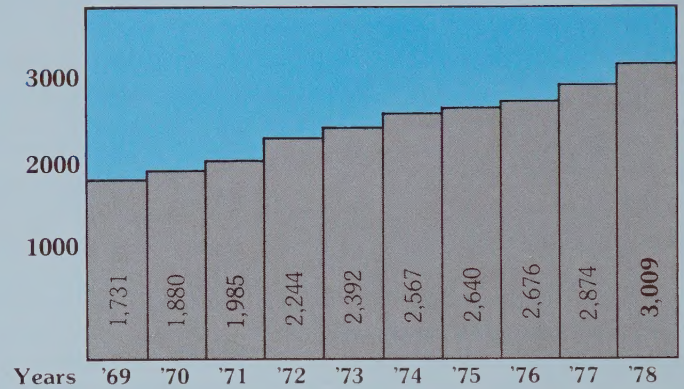
Shareholders' equity, deferred income taxes and long term debt, all at the beginning of the year.

J.M. Schneider Inc.

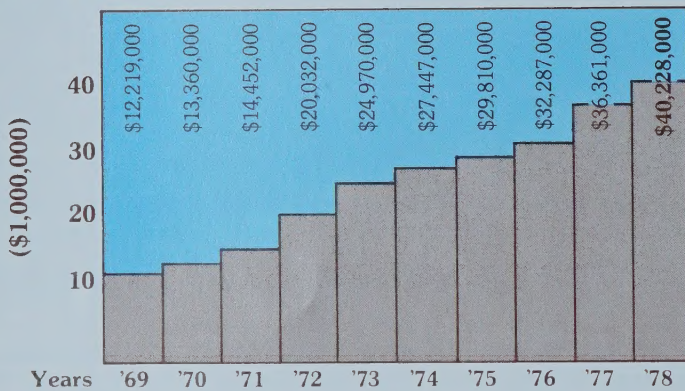
Sales



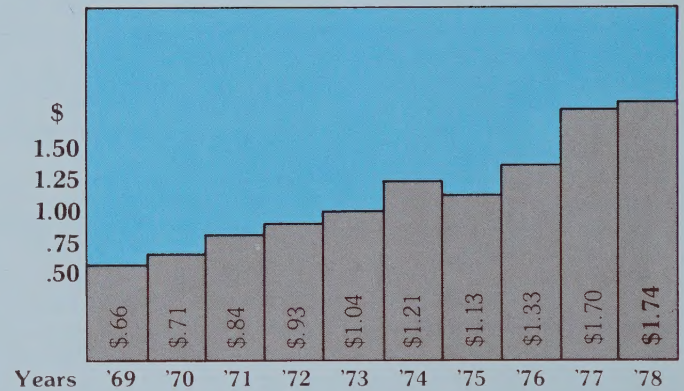
Average number of employees



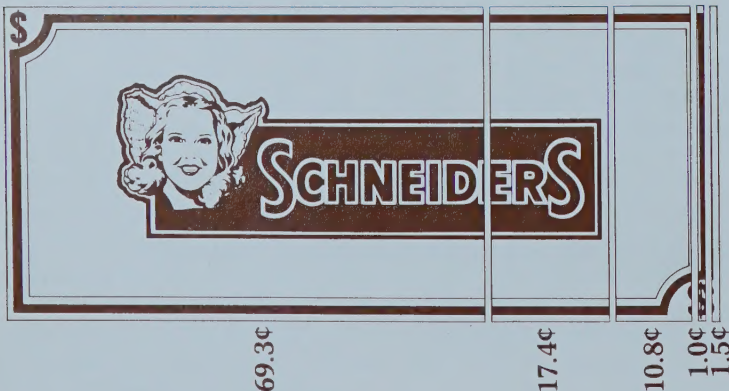
Shareholders' equity at end of year



Net earnings per share



1978 Sales Dollar Analysis



COST

69.3¢ MATERIALS (\$225,104,000)

Livestock, Dressed Meat, Ingredients, Food Products, Packages & Cartons

17.4¢ EMPLOYEES (\$56,501,000)

Wages & Benefits

10.8¢ OPERATING EXPENSES (\$35,223,000)

Supplies, Utilities, Business Services, Selling, Administration, Maintenance, Depreciation & Distribution

1.0¢ INCOME TAXES (\$3,114,000)

Federal & Provincial

1.5¢ PROFIT (\$4,733,000)

0.3¢ for Dividend Payments, 1.2¢ Retained in Business for Continuous Operations & Future Growth



This is our
employees' entrance
at our new addition to our

